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IN THE UNITED STATES BANKRUPTCY COURT
 FOR THE EASTERN DISTRICT OF VIRGINIA
 RICHMOND DIVISION

- - - - -	- - - - -	x
In re:	:	Chapter 11
	:	
CIRCUIT CITY STORES, INC.,	:	Case No. 08-35653 (KRH)
<u>et al.</u> ,	:	
	:	
Debtors.	:	Jointly Administered
- - - - -	- - - - -	x

**DEBTORS' OBJECTION TO CLAIM OF NEW YORK STATE DEPARTMENT
 OF TAXATION AND FINANCE (CLAIM NO. 12586)**

Circuit City Stores, Inc. ("Circuit City") and
 certain of its subsidiaries, debtors and debtors in
 possession in the above-captioned cases (collectively,

the "Debtors"),¹ hereby object (the "Objection") to proof of claim number 12586 ("Claim No. 12586") filed by The New York State Department of Taxation and Finance ("NY State Tax Dept."), and move this Court, pursuant to sections 105, 501, 502 and 505 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (as amended, the "Bankruptcy Code"), Rule 3007 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Local Bankruptcy Rule 3007-1 for entry of an order, the proposed form of which is attached hereto, disallowing Claim No. 12586 in its entirety. In support of the Objection, the Debtors respectfully state as follows:

JURISDICTION AND VENUE

1. This Court has jurisdiction to consider this Objection under 28 U.S.C. §§ 157 and 1334. This is

¹ The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: Circuit City Stores, Inc. (3875), Circuit City Stores West Coast, Inc. (0785), InterTAN, Inc. (0875), Ventoux International, Inc. (1838), Circuit City Purchasing Company, LLC (5170), CC Aviation, LLC (0841), CC Distribution Company of Virginia, Inc. (2821), Circuit City Properties, LLC (3353), Kinzer Technology, LLC (2157), Abbott Advertising Agency, Inc. (4659), Patapsco Designs, Inc. (6796), Sky Venture Corp. (0311), PRAHS, INC. (n/a), XSStuff, LLC (9263), Mayland MN, LLC (6116), Courchevel, LLC (n/a), Orbyx Electronics, LLC (3360), and Circuit City Stores PR, LLC (5512). The address for Circuit City Stores West Coast, Inc. is 9250 Sheridan Boulevard, Westminster, Colorado 80031. For all other Debtors, the address is 4951 Lake Brook Drive, Glen Allen, VA 23060.

a core proceeding under 28 U.S.C. § 157(b). Venue of these cases in this district is proper under 28 U.S.C. §§ 1408 and 1409.

2. The statutory and legal predicates for the relief requested herein are Bankruptcy Code sections 105, 501, 502 and 505, Bankruptcy Rule 3007 and Local Bankruptcy Rule 3007-1.

BACKGROUND

A. General Case Background.

3. On November 10, 2008 (the "Petition Date"), the Debtors filed voluntary petitions in this Court for relief under chapter 11 of the Bankruptcy Code.

4. On November 12, 2008, the Office of the United States Trustee for the Eastern District of Virginia appointed a statutory committee of unsecured creditors (the "Creditors' Committee"). To date, no trustee or examiner has been appointed in these chapter 11 cases.

5. On January 16, 2009, the Court authorized the Debtors, among other things, to conduct going out of business sales at the Debtors' remaining 567 stores

pursuant to an agency agreement (the "Agency Agreement") between the Debtors and a joint venture, as agent (the "Agent"). On January 17, 2009, the Agent commenced going out of business sales pursuant to the Agency Agreement at the Debtors remaining stores. The going out of business sales concluded on or about March 8, 2009.

6. On September 29, 2009, the Debtors and the Creditors' Committee filed the First Amended Joint Plan Of Liquidation Of Circuit City Stores, Inc. And Its Affiliated Debtors And Debtors In Possession And Its Official Committee Of Creditors Holding General Unsecured Claims (Bankr. Ct. Dkt. No. 5124) (the "Plan"). The associated disclosure statement (Bankr. Ct. Dkt. No. 5103) (the "Disclosure Statement") was approved on September 24, 2009, and the confirmation hearing with respect to the Plan is currently scheduled for May 11, 2010 (as may be adjourned or rescheduled, the "Confirmation Hearing"). The Plan provides for the liquidation of the Debtors under chapter 11 of the Bankruptcy Code and distribution of the proceeds from

such liquidation to the Debtors' creditors. See,
generally, Plan.

B. The NY State Tax Dept. Proof of Claim.

7. For tax years ending February 29, 2004, February 28, 2005, February 28, 2006, and February 28, 2007, Circuit City timely filed New York State corporate tax returns reflecting New York State tax liabilities in the following amounts:

Tax Year:	2004	2005	2006	2007
Tax Liability Paid:	\$221,959	\$225,731	\$541,731	\$138,802

8. All tax liabilities were timely paid. The total amount Circuit City paid to New York State on account of these tax periods was \$1,128,223.

9. On or about January 23, 2007, NY State Tax Dept. informed Circuit City that its New York State tax returns for the tax years ending February 29, 2004, February 28, 2005, February 28, 2006, and February 28, 2007 had been selected for audit (the "Tax Audit Years").

10. On February 23, 2009, NY State Tax Dept. issued a notice of deficiency for the Tax Audit Years in the amount of \$14,130,257.13 (the "Additional Tax Assessment"). A true and correct copy of the notice of

deficiency and audit workpapers are attached hereto as Exhibit A.

11. On or about May 4, 2009, NY State Tax Dept. filed Claim No. 12586 on account of the Additional Tax Assessment, asserting claims totaling \$14,130,257.13 representing:

Prepetition Taxes	Prepetition Interest	Prepetition Penalties
\$9,343,651.82	\$3,728,679.29	\$1,057,962.02

A true and correct copy of Claim No. 12586 is attached hereto as Exhibit B.

12. Pursuant to Claim No. 12586, NY State Tax Dept. asserts \$13,072,331.11 of the total claim amount as an unsecured priority claim, and the remaining \$1,057,926.02 as a general unsecured non-priority claim.

C. Inadequate Basis For Additional Tax Assessment.

13. Based on Claim No. 12586 and the notice of deficiency and audit workpapers provided to Circuit City, the Additional Tax Assessment appears to be premised on three separate items.

14. First, NY State Tax Dept. seeks to combine Circuit City with certain of its subsidiaries and affiliates for purposes of requiring Circuit City to file

a combined Article 9-A New York State tax return. As demonstrated herein, New York State tax law does not support the combination of entities sought by NY State Tax Dept.

15. Second, despite Circuit City properly calculating its business allocation percentages for the Tax Audit Years and paying the full amount of tax liability due and owing, NY State Tax Dept. now seeks to apply an overstated and arbitrary 8% business allocation percentage to apportion Circuit City's federal taxable income to New York State for each of the four Tax Audit Years. As demonstrated herein, the arbitrary 8% figure is improper, and Circuit City has already paid its tax liability in full based on the properly calculated business allocation percentages.

16. Third, NY State Tax Dept. seeks to require additions to Circuit City's federal taxable income with respect to Circuit City's New York State tax liability on account of certain unexplained items referred to in audit workpapers as "Intertan Expense-foreign affiliate", "Litigation Expense related to foreign affiliate", and "Self Insured Loss". As further demonstrated herein, NY

State Tax Dept.'s vague and ambiguous references to unexplained additional sources of taxable income are not sufficient to establish a claim.

OBJECTION

17. By this Objection, the Debtors seek entry of an order disallowing Claim No. 12586 in its entirety for all purposes in these bankruptcy cases.

BASIS FOR OBJECTION

18. Currently, the Debtors are engaged in a thorough review of all claims filed against their estates, including unsecured priority claims, to determine the validity of such claims.

19. After reviewing Claim No. 12586, certain related documentation, and the Debtors' books and records, the Debtors have determined that Claim No. 12586 is based on the invalid Additional Tax Assessment. Specifically (i) New York State tax law does not support the combination of entities sought by NY State Tax Dept. for tax filing purposes, (ii) the revised and overstated 8% business allocation percentage figure applied by NY State Tax Dept. is improper and Circuit City has already paid its tax liability in full based on the properly

calculated business allocation percentage, (iii) NY State Tax Dept.'s vague and ambiguous references to unexplained additional sources of taxable income are not sufficient to establish a claim, and (vi) if Circuit City and its subsidiaries are combined for income tax purposes, NY State Tax Dept.'s proof of claim improperly includes intercompany dividends into Circuit City's taxable income. Accordingly, Claim No. 12586 should be disallowed in its entirety.

APPLICABLE AUTHORITY

I. NEW YORK LAW DOES NOT SUPPORT COMBINATION OF ENTITIES FOR TAX FILING PURPOSES.

A. Generally Applicable Legal Standards.

20. By the Additional Tax Assessment and Claim No. 12586, NY State Tax Dept. alleges that, for the Audit Tax Years, Circuit City should be combined with certain of its subsidiaries for purposes of filing an Article 9-A New York State Combined Franchise Tax Return based on N.Y. TAX LAW § 211(4) (2010) and N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.

21. Essentially, pursuant to N.Y. TAX LAW § 211(4), a group of corporations may be required to file a combined return if: (1) the taxpayer meets a capital

stock ownership test; (2) the group of corporations are engaged in a unitary business; and (3) filing on a separate basis would distort the group's New York activities, business, income or capital. N.Y. TAX LAW § 211(4) (2010); see also N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2; N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.2 (defining the capital stock ownership test and unitary business); N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.3(b)(defining distortion).

22. With respect to the first element of the analysis identified by N.Y. TAX LAW § 211(4), the capital stock ownership test is satisfied if: (a) the taxpayer controls substantially all the stock of the other corporations; (b) substantially all the common stock of the taxpayer is controlled by the other corporations; or (c) substantially all the capital stock of the taxpayer and the other corporations are controlled by the same entity. N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.2(a)(1); see also Campbell Sales Co. v. N.Y. State Tax Com., 68 N.Y.2d 617, 619-620 (N.Y. 1986)(taxpayers may be required to file combined reports where the parent owns or controls substantially all the capital stock of

the subsidiary). Substantially means at least "80% or more of the voting stock." N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.2(a)(2).

23. The second element of the analysis identified by N.Y. TAX LAW § 211(4) will be satisfied only if the group of corporations sought to be combined engaged in a "unitary business". A unitary business requires: (a) centralized management; (b) functional integration, i.e., integration of operations; (c) economies of scale, i.e., shared office space, facilities or resources; and (d) that the companies have related activities. Mobil Oil Corp. v. Comm'r of Taxes of Vt., 445 U.S. 425, 438-39 (1980)(stating that a unitary business involves "functional integration, centralization of management, and economies of scale."); see also N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.2(a)(2)(b)("[i]n deciding whether a corporation is part of a unitary business . . . consider whether the activities in which the corporation engages in are related to the activities of the other corporations").

24. Finally, with respect to the third element of the analysis identified by N.Y. TAX LAW §

211(4), "the ultimate question is whether, under all of the circumstances of the intercompany relationship . . . combined reporting fulfills the statutory purpose of avoiding distortion of and more realistically portraying true income." Sherwin-Williams Co. v. Tax Appeals Tribunal, 12 A.D.3d 112, 115-16 (N.Y. App. Div. 3d Dep't 2004). Potential for distortion is analyzed based on the facts and circumstances of intercorporate transactions between the taxpayer and its related entities, and a presumption of distortion may exist where there are substantial intercorporate transactions among the corporations. Id. at 114-16; see also N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.3(b). Intercorporate transactions generally include activities similar to those considered under the unitary business analysis. N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.3(c).

B. Additional Applicable Legal Standard.

25. Additionally, under New York law, a corporation that is taxable under Article 32 (Franchise Tax on Banking Corporations) or Article 33 (Premiums Tax on Insurance Companies) of New York's statutory tax law cannot be included in an Article 9-A General Corporation

Combined Franchise Tax Return. N.Y. COMP. CODES R. &
REGS. tit. 20, § 6-2.5(c).

**C. Entities Improperly Sought To Be Combined With
Circuit City For Tax Purposes.**

26. By the Additional Tax Assessment and
Claim No. 12586, NY State Tax Dept. seeks to combine
with Circuit City, for purposes of determining New York
State tax liability, the following entities: First North
American National Bank ("FNANB"), D.C. Funding
International, Inc. ("D.C."), Tyler Funding
International, Inc. ("Tyler"), Circuit City Stores West
Coast, Inc. ("CCW"), CC Distribution Co. of Virginia,
Inc. ("CC Distribution"), and Ventoux International,
Inc. ("Ventoux") (collectively the "Subsidiaries").

**D. FNANB Cannot Be Combined For Tax Filing
Purposes.**

27. FNANB was a wholly-owned subsidiary of
Circuit City and commercially domiciled in Georgia.
FNANB was organized as a nationally chartered limited
purpose credit card bank and, as a banking corporation,
would be subject to Article 32 of the New York tax law.
New York law precludes Article 32 filing entities --
banking corporations -- from being included in an

Article 9-A General Corporation Combined Franchise Tax Return. N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.5(c); see also N.Y. TAX LAW § 1452(a) ("[A] banking corporation means: (2) every corporation or association organized under the laws of any other state or country which is doing a banking business."). Accordingly, FNANB cannot be combined with, or included in, Circuit City's New York State tax return.

E. D.C. and Tyler Cannot Be Combined For Tax Filing Purposes.

28. The D.C. and Tyler entities cannot be combined with Circuit City for tax filing purposes because neither entity satisfies the unitary business or distortion elements of N.Y. TAX LAW § 211(4).

(1) D.C. and Tyler background.

29. Beginning in 2001, and in response to concerns of the Office of the Comptroller of Currency ("OCC"), FNANB began securitizing its credit card receivables through a two-step securitization structure. To do this, Circuit City created D.C. and Tyler (together, the "Special Purpose Entities") as two wholly-owned subsidiaries. The Special Purpose Entities were both United States corporations with their

principal place of business and commercial domiciles in Bermuda. Each entity had an office in Bermuda. At no time did any employee or officer of D.C. or Tyler conduct any business in New York. D.C. was liquidated in February, 2004 and Tyler was liquidated in July, 2004.

30. The two-step securitization process involved FNANB selling on a daily basis all of its credit card receivables to the Special Purpose Entities. FNANB recognized substantial gains on the sales of its receivables to the Special Purpose Entities and included these gains in its federal taxable income. The purpose of this two-step securitization methodology was to respond to concerns raised by bank regulators regarding the adequacy of FNANB's capital ratios.

31. The sales were arms-length transactions, examined and approved annually by bank regulators and, based on "true sale" opinions obtained from Circuit City's outside counsel, met the isolation criterion of FAS 140 such that the Federal Deposit Insurance Corporation would not be able to seek to reclaim, recover or recharacterize the transferred receivables as

property of FNANB. After selling the receivables to D.C. and Tyler, FNANB continued to service the receivables outside of New York for an arms-length negotiated fee which was included in FNANB's federal income tax.

(2) There exists no unitary business purpose.

32. A unitary business has centralized management, integrated operations, related activities and shared resources. Mobil Oil, 445 U.S. at 439 (stating that to avoid state taxation for certain activities, a corporation must show its "income was earned in the course of activities unrelated to [its business] in that State."). D.C. and Tyler were created to securitize credit card receivables for FNANB. Conversely, Circuit City primarily sold consumer electronics. Further, Circuit City, D.C. and Tyler did not share management or directors. Accordingly, the entities did not form a unitary business. See N.Y. TAX LAW § 211(4); see also Mobil Oil, 445 U.S. at 439 ("[T]he linchpin of apportionability in the field of state income taxation is the unitary-business principle.").

(3) There exists no distortion.

33. Distortion generally entails substantial intercorporate activities between the taxpayer and affiliates and an unrealistic portrayal of true income. N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2(b). As alleged by NY State Tax Dept., neither of these is clearly evident with respect to D.C. and Tyler's relationship with Circuit City. For example, D.C. and Tyler lacked substantial intercorporate transactions with Circuit City because D.C. and Tyler securitized receivables for FNANB and did not interact directly with Circuit City. Accordingly, the exclusion of D.C. and Tyler from Circuit City's New York State taxable income is unlikely to cause distortion.

F. CCW and CC Distribution Cannot Be Combined For Tax Filing Purposes.

34. The combination of CCW and CC Distribution with Circuit City for tax filing purposes is not supported by N.Y. TAX LAW § 211(4). First, it is questionable whether there exists a unitary business relationship between the entities and Circuit City. The subsidiaries did not share office space, facilities or resources with Circuit City. CCW operated retail stores

on the west coast of the United States, while CC Distribution operated an inventory distribution center in Kentucky.

35. Second, the exclusion of CCW and CC Distribution is unlikely to create distortion as contemplated by the statute. Specifically, it is not clear, and New York State Tax Dept. has not shown, that any existing intercorporate transactions among these entities and Circuit City rise to the level of 'significant' or 'substantial' intercorporate transactions generally necessary for combination under New York law or provide an unrealistic portrayal of true income. Accordingly, the exclusion of CCW and CC Distribution from Circuit City's New York State taxable income does not cause distortion. N.Y. COMP. CODES R. & REGS. tit. 20, § 6-2.3(c).

G. Ventoux Cannot Be Combined For Tax Filing Purposes.

36. Ventoux is organized under the laws of the State of Delaware and is classified as a corporation for United States federal income tax purposes. Ventoux operates primarily as a holding company for InterTAN,

Inc. ("InterTAN US"). InterTAN US owned, as its only asset, all the issued and outstanding common stock of InterTAN Canada, Ltd. ("InterTAN CA"), a limited company organized under the laws of Ontario. On or about the Petition Date, InterTAN CA commenced its own parallel proceedings in the Ontario Superior Court of Justice under the Companies' Creditors Arrangement Act in Canada (the "Canadian Case").

37. The debtors in the Canadian Case operated a separate retail business with a distinct operating structure and are not governed by the Debtors' bankruptcy Plan. Accordingly, there exists no unitary business relationship among Ventoux and Circuit City, and exclusion of Ventoux from Circuit City's New York State income tax does not result in distortion as contemplated under New York tax law.

II. UNSUPPORTED BUSINESS ALLOCATION PERCENTAGE IS ARBITRARY AND INVALID.

38. The Debtors further object to Claim No. 12586 because NY State Tax Dept. seeks to apply an unsubstantiated 8% business allocation percentage as

Circuit City's business presence in New York State for income tax purposes. See Exhibit A, Audit Workpapers.

39. The fair apportionment of a corporation's taxable income to an individual State is a fundamental concept of state taxation. Container Corp. of Am. V. Franchise Tax Bd., 463 U.S. 159, 169 (1983) ("[W]e will strike down the application of an apportionment formula if the taxpayer can prove . . . the income attributed to the State is in fact out of all appropriate proportions to the business transacted . . . in that State.")(citations omitted). In that regard, "an apportionment formula will not be upheld if the formula is intrinsically arbitrary or if it reaches an unreasonable result in a particular case." Eastman Kodak Co. v. State Tax Comm'n, 33 A.D.2d 298, 303 (N.Y. App. Div. 3d Dep't 1970) (citing Hans Rees' Sons, Inc. v. North Carolina, 283 U.S. 123, 133 (1931) ("[W]hen the State has adopted a method not intrinsically arbitrary, it will be sustained until proof is offered of an unreasonable and arbitrary application in particular cases.")).

40. Here, NY State Tax Dept. did not perform the statutorily required calculation to determine the appropriate business allocation percentage (appropriation calculation). Instead, NY State Tax Dept. attempted to justify the arbitrary 8% figure by explaining that the "[t]axpayer was not able to provide intercompany elimination amounts to properly compute a combined BAP, therefore in order to protect the State's interest we reasonably computed the combined BAP at 8%." See Exhibit A, Audit Workpapers. This is insufficient.

41. The proper statutory calculation is essentially the taxpayer's New York property, payroll and receipts compared to the taxpayer's worldwide property, payroll and receipts. See N.Y. TAX LAW § 210(3)(a); Am. Chicle Co. v. State Tax Com., 11 A.D.2d 256, 257 (N.Y. App. Div. 3d Dep't 1960)("The formula for computing franchise taxes on business corporations deriving revenue without the State consists generally of comparing receipts from business transacted within the State to total receipts.").

42. Circuit City properly calculated its New York State business allocation percentages under the

statute and determined they were 6.4178%, 7.2035%, 6.9511% and 6.9202% for the 2004-2007 tax years, respectively. Circuit City paid its full tax liability based on those business allocation percentages.

NY State Tax Dept., however, for purposes of the Additional Tax Assessment and Claim No. 12586, merely estimated Circuit City's business allocation percentage at 8% to "protect its interests." See Exhibit A, Audit Workpapers. This arbitrary figure does not accurately reflect Circuit City's taxable income attributable to New York State. Accordingly, the Debtors object to the inclusion of any additional taxable income on account of the overstated business allocation percentage, and seek to have Claim No. 12586 disallowed in its entirety.

III. INCLUSION OF ADDITIONAL UNEXPLAINED SOURCES OF TAXABLE INCOME IS UNSUPPORTED AND INVALID.

43. The Debtors further object to Claim No. 12586 because the tax determination by NY State Tax Dept. is "arbitrary and excessive", having added unexplained sources of income to Circuit City's federal taxable income for the Tax Audit Years. See Cebollero v. Comm'r, 967 F.2d 986, 990 (4th Cir. 1992) ("[T]he taxpayer is

entitled to have the determination set aside if he can prove that it is 'arbitrary and excessive'); see also In re Deep River Warehouse, Inc., 2005 Bankr. LEXIS 1251, at*4 (Bankr. M.D.N.C. June 22, 2005)("[T]he claimant is only entitled to have the claim considered "prima facie valid" if the claimant alleges facts sufficient to support the claim."). Specifically, although NY State Tax Dept. seeks to include as federal taxable income certain amounts identified only as "Intertan Expense-foreign affiliate," "Litigation Expense related to foreign affiliate" and "Self Insured Loss", see Exhibit A, Audit Workpapers, such amounts should not be included.

44. In support of its inclusion of "Intertan Expense-foreign affiliate" and "Litigation Expense related to foreign affiliate," NY State Tax Dept. cites N.Y. COMP. CODES R. & REGS. tit. 20, § 3-2.3(7). See Exhibit A, Audit Workpapers. This conclusory citation is insufficient. Indeed, the Debtors are unaware of the nature of these items and have no understanding as to the basis upon which NY State Tax Dept. asserts that income relating to these items should be included in Circuit City's New York State taxable income for the Audit Tax

Years. Consequently, to sustain its burden with respect to the claim asserted, NY State Tax dept. should come forward with the facts justifying application of the above-cited statutory provision.

45. NY State Tax Dept. also seeks to include additional taxable income relating to "Self Insured Loss", stating that the "[t]axpayer has not been able to substantiate this expense, therefore it is added back in order to protect the State's interest." See Exhibit A, Audit Workpapers. NY State Tax Dept. provides no authority or further justification to support its position that the "Self Insured Loss" should be added to Circuit City's taxable income. Any such addition is arbitrary and unsupported. See Moser v. United States (In re Moser), 25 Fed. Appx. 161, at 163 (4th Cir. 2002) (stating the debtor only has to persuade the court that a tax claim is arbitrary and excessive to meet its burden); Deep River Warehouse, 2005 Bankr. LEXIS 1251, at *4 (stating that a proof of claim must have factual support to maintain its validity).

**IV. PENALTIES ON INVALID ADDITIONAL TAX ASSESSMENT
SHOULD BE DISALLOWED.**

46. In Claim No. 12586, NY State Tax Dept. also asserts approximately \$1,057,926.02 of general unsecured non-priority amounts against Circuit City on account of alleged penalties relating to the Additional Tax Assessment. As demonstrated above, the Additional Tax Assessment serving as the basis for Claim No. 12586 is invalid. Accordingly, the penalties asserted on account of the improper Additional Tax Assessment should be disallowed in their entirety.

**V. EVEN IF COMBINED FOR TAX PURPOSES, CCW'S
INTERCOMPANY DIVIDEND DISTRIBUTIONS CANNOT BE
INCLUDED IN CIRCUIT CITY'S TAXABLE INCOME.**

47. Even if Circuit City were combined with CCW for New York State tax filing purposes -- which combination is not supported by governing tax law -- then NY State Tax Dept. has still improperly included in its Additional Tax Assessment and Claim No. 1586 over one billion dollars of alleged taxable income on account of intercompany dividend distributions from CCW to Circuit City that should be excluded from the computation.

48. Specifically, New York State tax law provides that entities included in a combined return are to eliminate intercorporate dividend distributions from the computation of New York State taxable income. N.Y. COMP. CODES R. & REGS. tit. 20, § 3-2.10(a) ("In computing combined entire net income, all incorporate dividends . . . must be eliminated."). Thus, even if Circuit City and CCW were combined for tax filing purposes, the improper inclusion of intercompany dividend distributions from CCW to Circuit City as taxable income would improperly inflate Circuit City's taxable income by over one billion dollars. Accordingly, the intercompany dividend amounts cannot be included in Circuit City's taxable income and any resulting additional tax on account of the intercompany dividend income must be disallowed.

RESERVATION OF RIGHTS

49. At this time, the Debtors have not completed their review of the validity of all claims/expenses filed against their estates, including Claim No. 12586 and all other claims asserted by NY State Tax Dept. To that end, the Debtors reserve the right to further object to Claim No. 12586 and any and all claims,

whether or not the subject of this Objection, for allowance and distribution purposes, and on any other grounds. Furthermore, the Debtors reserve the right to modify, supplement and amend this Objection as it pertains to any claim of NY State Tax Dept.

NOTICE

50. Notice of this Objection has been provided to NY State Tax Dept. and to parties-in-interest in accordance with the Court's Order Pursuant to Bankruptcy Code Sections 102 and 105, Bankruptcy Rules 2002 and 9007, and Local Bankruptcy Rules 2002-1 and 9013-1 Establishing Certain Notice, Case Management and Administrative Procedures (Docket No. 130) (the "Case Management Order"). The Debtors submit that, under the circumstances, no other or further notice need be given.

WAIVER OF MEMORANDUM OF LAW

51. Pursuant to Local Bankruptcy Rule 9013-1(G), and because there are no novel issues of law presented in the Objection, the Debtors request that the requirement that all motions be accompanied by a written memorandum of law be waived.

NO PRIOR RELIEF

52. No previous request for the relief sought herein has been made to this Court or any other court.

CONCLUSION

WHEREFORE, the Debtors respectfully request that the Court enter an Order sustaining this Objection and granting such other and further relief as the Court deems appropriate.

Dated: Richmond, Virginia SKADDEN, ARPS, SLATE, MEAGHER &
April 19, 2010 FLOM, LLP
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EXHIBIT A

(NY State Tax Dept. Notice of Deficiency and
Audit Workpapers for Circuit City, Inc.)

Claim # 12586
 Creditor NYS
 Amount \$14,130,257.13
 Type Tax

	Admin	Priority	Secured	Unsecured	Total
Tax		9,343,651.82			9,343,651.82
Interest		3,728,679.29			3,728,679.29
Penalty				1,057,926.02	1,057,926.02
Total	0.00	13,072,331.11	0.00	1,057,926.02	14,130,257.13

FYE	Tax Type	Tax	Interest	Penalty	Total
2/28/2004	Income	2,793,681.00	1,392,705.99	218,097.00	4,404,483.99
2/28/2004	Franchise	295,734.00	147,429.70	20,172.00	463,335.70
2/28/2005	Income	3,909,304.00	1,561,948.15	385,058.00	5,856,310.15
2/28/2005	Franchise	609,405.00	243,485.47	60,039.00	912,929.47
2/28/2006	Income	699,344.00	199,025.74	284,805.00	1,183,174.74
2/28/2006	Franchise	112,917.00	32,135.25	44,259.00	189,311.25
2/28/2007	Income	795,107.00	130,833.59	38,884.00	964,824.59
2/28/2007	Franchise	127,672.00	21,008.10	6,533.00	155,213.10
Subtotal		9,343,164.00	3,728,572.00	1,057,847.00	14,129,583.00
Unknown		487.82	107.29	79.02	674.13
Total		9,343,651.82	3,728,679.29	1,057,926.02	14,130,257.13

Note : Interest is estimated from a subsequent invoice. Insufficient detail was provided in claim to break out interest by tax type


New York State Department of Taxation and Finance

Audit Div-Buffalo Office-Income/Franchise
77 Broadway - Suite 112
Buffalo NY 14203-1670

Page 32 of 54

NOTICE OF DEFICIENCY

DATE: 02/23/09

ASSESSMENT ID: L-031584652-4

TOTAL AMOUNT DUE: \$14,157,185.46

PAYMENT DUE DATE: 03/16/09

CIRCUIT CITY STORES, INC.
9950 MAYLAND DR
RICHMOND, VA 23233-1463

TAXPAYER ID: B-54-0493875-1

TPS ID: 540493875AA

TAX TYPE: Corporation

TAX ARTICLE/SECTION: 9A/209.1

AUDIT ID: X656131326

FUNCTION CODE: DCO

TAXPAYER'S COMPLETE LEGAL NAME

CIRCUIT CITY STORES, INC.

EXPLANATION AND INSTRUCTIONS

Based on an audit, an additional amount is due for the Tax Type indicated above. Please refer to the COMPUTATION SECTION and/or COMPUTATION SUMMARY SECTION for the tax period(s) affected, the reason(s) for the additional amount due and a computation of the balance due.

Please refer to the enclosed Payment Document for payment information, whether you AGREE or DISAGREE with this NOTICE OF DEFICIENCY.

IF YOU AGREE with the amount due, sign the Consent To Findings Section and complete the Payment Application Section. If you cannot send the total amount due, a partial payment will reduce the basis on which additional penalty and/or interest is computed. You will receive a bill for the remaining balance due.

IF YOU AGREE with some of the adjustments, a partial payment will reduce the basis on which additional penalty and/or interest is computed. Complete the Payment Application Section for the amount you agree is due. Refer to the enclosed Notice of Taxpayer Rights to determine your options.

IF YOU DISAGREE with the amount due, refer to the enclosed Notice of Taxpayer Rights to determine your options.

- To request a Conciliation Conference, complete the enclosed Request for Conciliation Conference (items 1 through 8) and return it in the envelope provided.
- To request a Petition for a Tax Appeals Hearing, form TA-10, follow the instructions on the enclosed Notice of Taxpayer Rights.
- Attach a photocopy of all pages of this notice to the Request for Conciliation Conference.

NOTE: You must file the Request for Conciliation Conference or a Petition For A Tax Appeals Hearing by 05/24/09.

Refer to the Instructions on the Payment Document for returning that form.

(CONTINUED ON BACK)

Attachment to: NOTICE OF DEFICIENCY

DATE: 02/23/09

ASSESSMENT ID: L-031584652-4

TAXPAYER ID: B-54-0493875-1

COMPUTATION SUMMARY SECTION (continued)

Tax Period Ended	Tax Amount Assessed	(+) Interest Amount Assessed	(+) Penalty Amount Assessed	(-) Assessment Payments/ Credits	(=) Current Balance Due
02-28-07	127,672.00	21,163.62	6,533.00	0.00	155,368.62
TOTALS	9,343,164.00	3,756,174.46	1,057,847.00	0.00	14,157,185.46

NOTE: To view the current balance of this or any other outstanding liabilities, access our web site at www.nystax.gov and select the Online Tax Center option.

**NEW YORK CITY DEPARTMENT OF FINANCE
BANKRUPTCY & ASSIGNMENT UNIT
345 ADAMS STREET, 5TH FLOOR
BROOKLYN, NY 11201**

**Circuit City Stores, Inc. et al.
C/O Skadden, Arps, Slate, Meagher &
Flom, LLP.**

One Rodney Square

P.O. Box 636

Wilmington, Delaware 19899-0636

Date: August 7, 2009

Requested By: Nahed Iskander

Tel. No : (718) 403-4187

Request # 1

**Attn: Gregg M. Galardi, Esq.
Ian S. Fredericks, Esq.
Counsel to the Debtors and Debtor in Possession**

INFORMATION DOCUMENT REQUEST

Circuit City Stores Inc. et al

Case # 08-35653 EIN: 54-0493875

Proof of Claim - General Corporation Tax - Periods 1/1/05 - 11/10/08 \$ 220,000.00
Proof of Claim - Commercial Rent Tax - Periods 6/1/92 - 5/31/96 \$ 110,000.00
Commercial Rent Tax - Periods 6/1/96 - 11/10/08 \$ 385,000.00

Administrative Claim - General Corporation Tax 11/11/08 - 4/30/09 \$18,334.00
Administrative Claim - Commercial Rent Tax 11/11/08 - 4/30/09 \$ 10,694.00

GENERAL CORPORATION TAX

- Copies of NYC-3L and Federal Form -1120 including supporting schedules for for 2008 and 2009.

COMMERCIAL RENT TAX

- Copy of all NYC leases (only the pages referring to the terms of the lease & effective date) for the periods listed above.

Please respond as soon as possible the hearing is scheduled for August 27, 2009

AUG-07-2009 16:17

DEPT OF FINANCE

718 935 6007 P.01



RECEIVED

AUG 10 2009

FAX TRANSMITTAL FORM

Date: 8/7/09

To: Greg M. Galaedi / IAN Fax #: (302) 651-3001
Fidairis

From: Naked Iskender Tel.: (718) 403-4187

Pages: 1 to follow

Action to be taken:

- ☐ Urgent/Immediate Attention
- ☐ Awaiting your comments
- ☐ As you requested
- ☐ For your information and/or files
- ☐ Please call upon receipt
- ☐ Per our conversation
- ☐ Other (please see below)

Please forward to the responsible party

CONFIDENTIAL NOTICE

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TAX AUDIT & ENFORCEMENT DIVISION (TAPE)
345 ADAMS STREET, 5TH FLOOR
BROOKLYN, NY 11201
FAX # (718) 403-3683
or
FAX # (718) 403-4436

New York State Audit Analysis
J:\Tax\IncomeTax\Audits\New York\FY04 - FY06\Recalc of Auditors Workpaper.xls\Sheet1

	FY04	FY05	FY06	FY07
Net Income per return	(93,578,678)	8,237,790	103,940,682	(28,868,854)
Add: InterTAN Exp	0	379,787	199,507	0
Add: Litigation Exp	0	0	0	10,095,488
Add: Self Insured Loss	1,954,397	2,281,990	3,398,743	2,122,718
Combination				
CCSWC	347,426,653	387,785,938	449,204,287	457,420,938
Less Royalty & Int on NY return	(323,999,671)	(330,641,213)	(365,477,790)	(400,403,058)
Div Income Sub On NY return	426,118,000	340,428,143	43,062,000	104,591,000
Nonint deduct indirectly attrib to sub cap	0	0	(35,702,480)	6,588,069
CC Distribution Company of VA	3,205,653	3,307,649	6,634,435	3,992,377
DC Funding Int'l	30,311,311	0	0	0
Tyler International Funding	87,186,050	279,137,613	0	0
FNANB	23,982,894	(3,067,768)	0	0
Ventoux	0	1,322,618	1,609,848	123,854
Apportionable Income per Auditor	502,606,609	689,172,547	206,869,232	155,671,532
Disagreed Items:				
Dividend Income s/b eliminated	(426,118,000)	(340,428,143)	(43,062,000)	(104,591,000)
FNANB filed VDA	(23,982,894)	3,067,768	0	0
DC (not enough I/C transactions to incl)	(87,186,050)	(279,137,613)	0	0
Tyler (not enough I/C transactions to incl)	(23,982,894)	3,067,768	0	0
NOL from Prior periods	0	(58,663,229)	0	0
NOL from Prior periods	0	(17,079,098)	(21,823,186)	0
Adjusted Apportionable Income	(58,663,229)	0	141,984,046	51,080,532
Allocation %	8.00%	8.00%	8.00%	8.00%
Allocated Business Income	0	0	11,358,724	4,086,443
Tax Rate	7.50%	7.50%	7.50%	7.50%
Tax on Income	0	0	851,904	306,483
Tax on Capital Base (as filed)	221,959	225,731	188,651	129,455
Difference Addtl Tax/(Less Tax)	0	0	663,253	177,028
State's Assessment	2,793,681	3,909,304	699,344	796,107
Difference	(2,793,681)	(3,909,304)	(36,091)	(619,079)
MTA Calculation:				
New York State Frch MTA base	1,305,783	195,787	1,022,285	367,780
Allocation %	75.2107%	75.2107%	75.2107%	75.2107%
Tax Rate (0.17%)	982,088	147,253	768,868	276,610
MTA Surcharge (as filed)	166,955	25,033	130,708	47,024
Difference Addtl Tax/(Less Tax)	166,955	25,033	77,523	15,618
State's Assessment	(0)	(0)	53,185	31,406
Difference	295,734	609,406	112,917	127,672
Total Reduction in Tax Claim	(295,734)	(609,406)	(59,732)	(96,266)
	(3,089,415)	(4,518,710)	(95,823)	(715,345)

22 Allow Income
— object total for Income

Allow Franchise
21 = 81,561

→ object bin for Franchise

Circuit City Stores, Inc.		EIN 54-0453875		12/15/2008	
Computation of Additional MTA Surcharge (Refund) Due		Prepared by: MWB		Approved by:	
Schedule A-2					
	Period Ended REF 02/28/2004	Period Ended REF 02/28/2006	Period Ended REF 02/28/2008	Period Ended REF 02/28/2007	
Net New York State franchise tax	(1) 3,618,768	(1) 4,982,042	(1) 1,489,468	(1) 1,120,881	
MCTD allocation percentage	CT-3M 75.2107%	per audit 75.2107%	per audit 75.2107%	per audit 75.2107%	
Allocated franchise tax	2,721,701	3,731,887	1,120,233	842,880	
MTA surcharge rate	0.17	0.17	0.17	0.17	
MTA surcharge	462,689	634,438	190,440	143,280	
Surcharge per report	CT-3M 166,955	CT-3M 25,033	CT-3M 77,523	CT-3M 15,618	
MTA surcharge previously paid	CT-3M 166,955	CT-3M 25,033	CT-3M 77,523	CT-3M 15,618	
Additional MTA surcharge Due	<u>295,734</u>	<u>609,405</u>	<u>112,917</u>	<u>127,672</u>	
• To Schedule A •				1,145,727	
Notes:					
(1): Although the tax rate on Entire Net Income is reduced from 9% for years beginning after 6/30/99, the MTA surcharge must be computed as if the tax on Entire Net Income remained at 9%.					

Circuit City Stores, Inc.
Computation of Tax on Entire Net Income Base
Schedule B

EIN 54-093875 12/15/2008

Prepared by: mwb
 Approved by:

	Period Ended REF 2/29/2004	Period Ended REF 2/28/2006	Period Ended REF 2/28/2006	Period Ended REF 02/28/2007
Entire net income as reported	CT-3	CT-3	CT-3	CT-3
Adjustments:				
Adelback: Inflation Expense - foreign affiliate (1)		1120, line 26	1120, line 26	1120, line 26
Litigation Expenses related to foreign affiliates (1)		1120, line 26	1120, line 26	1120, line 26
Self-insured Loss - included in other deductions (2)	1120, line 26	1120, line 26	1120, line 26	1120, line 26
Combined Entities:				
Circuit City Stores, West Coast, Inc., ein 54-4480785	1120	1120	1120	1120
Less: Royalty and Interest Income Included in NY return	CT-3	CT-3	CT-3	CT-3
Add: Dividend Income subtracted on NY return	CT-3	CT-3	CT-3	CT-3
Less: Noninterest Deductions Indirectly Attrib. to Sub. Cap.				
CC Distribution Co. of Virginia, Inc., ein 54-1712821	1120	1120	1120	1120
CC Funding International, Inc., ein 54-2062183	1120	1120	1120	1120
Tyler International, Inc., ein 54-2062165	1120	1120	1120	1120
First North American National Bank, ein 68-1987792	1120	1120	1120	1120
Ventoux International, Inc., ein 20-1071832	1120	1120	1120	1120
Entire net income as adjusted	502,808,609	689,172,545	206,889,243	155,651,532
Investment income before allocation	0	0	0	0
Business income before allocation	502,808,609	689,172,545	206,889,243	155,651,532
Investment allocation percentage	0.0000%	0.0000%	0.0000%	0.0000%
Combined Business Allocation Percentage per Audit (4)	8.0000%	8.0000%	8.0000%	8.0000%
Allocated investment income	0	0	0	0
Allocated business income	40,208,529	55,133,804	16,548,539	12,452,123
Total allocated income	40,208,529	55,133,804	16,548,539	12,452,123
Other additions (subtractions):				
Entire net income base	40,208,529	55,133,804	16,548,539	12,452,123
Tax Rate	7.50%	7.50%	7.50%	7.50%
Small Business Qualified (Y/N)	N	N	N	N
Entire Net Income Base Tax	3,015,640	4,135,035	1,241,215	932,909
- To Schedule A-1 -				

Notes:

- (1) New York State Tax Law Article 9A, Section 203(2)(b), Regulation Section 3-2.3(7). Expense related to foreign subsidiary must be added back to ENI as directly attributable to subsidiary capital.
- (2) New York State Tax Law Article 9A, Section 211(5), Regulation Section 3-1.4. Taxpayer has not been able to substantiate this expense, therefore, it is being added back in order to protect the State's interest.
- (3) New York State Tax Law Article 9A, Section 211(4), Regulation Section 9-2. The above entities meet the requirements for combined reporting.
- (4) New York State Tax Law Article 9A, Section 210, Regulation Section 4-1.2. Taxpayer was not able to provide intercompany elimination amounts to properly compute a combined BAP, therefore in order to protect the State's interest, we reasonably computed the combined BAP at 8%.

Seems to be double counting
 • ILC dividends would be eliminated

? Not review what are these

No review

* Apport 8? Do we agree? How was this calculated?

* FNAB was in VDA right?
 * SPEs were not a VDA, right?
 * Review previous audit what was treatment of SPEs
 * when did the Unitary rules kick in, did we file Unitary?



**New York State Department of
Taxation and Finance**

Bankruptcy Section
P O Box 5300
Albany NY 12205-0300

(518) 457-3160

Statement date: 4/28/2009

Amendment: 3rd

Case number: 08-35653 KRH

Refer to this number for inquiries

Total claim amount: \$14,130,257.13

Taxpayer ID#: B-54-0493875-03-1
B-54-0493875-02-4
B-54-0493875-B-64
et al.

Pre-Petition Proof of Claim

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF VIRGINIA
c/o KURTZMAN CARSON CONSULTANTS LLC.
2335 ALASKA AVENUE
EL SEGUNDO, CA 90245

This is a statement of tax liabilities for LAFAYETTE WARDS COMPANY INC, LAFAYETTE WARDS COMPANY INC and CIRCUIT CITY STORES INC, et al.. Penalty and interest for each liability is computed to 11/10/2008.

Unsecured Priority Liabilities

Tax Type	Period End	Notice Number	Tax	Penalty	Interest	Total	Type
CORP	02/28/2007	L-031279862-1	487.82	0.00	107.29	595.11	ACT
CORP	02/28/2007	L-031584652-4	9,343,164.00	0.00	3,728,572.00	13,071,736.00	AUD
SubTotal \$						13,072,331.11	

General Unsecured Liabilities

Tax Type	Period End	Notice Number	Tax	Penalty	Interest	Total	Type
CORP	02/28/2007	L-031584652-4	0.00	1,057,847.00	0.00	1,057,847.00	AUD
CORP	02/29/2008	L-031878313-8	0.00	79.02	0.00	79.02	ACT
SubTotal \$						1,057,926.02	

This claim amends and supercedes the previous claim dated 4/27/2009.
Current Annual Interest Rates by Tax Type: Corporation - 8%
Liability Type Descriptions: AUD - Audit Assessment, ACT - Actual Return Filed

RECEIVED

MAY 04 2009

KURTZMAN CARSON CONSULTANTS



- ☒ Date Stamped Copy Returned
☐ No self addressed stamped envelope
☐ No copy to return



**New York State Department of
Taxation and Finance**
Audit Div-Buffalo Office-Income/Franchise
77 Broadway - Suite 112
Buffalo NY 14203-1670

CIRCUIT CITY STORES, INC.
PO BOX 5695
GLEN ALLEN, VA 23058-5695



New York State Department of Taxation and Finance

Audit Div-Buffalo Office-Income/Franchise
77 Broadway - Suite 112
Buffalo NY 14203-1670

Notice to Taxpayer

Date: 06/15/09

Assessment ID: L-031584652-4

Taxpayer ID: B-54-0493875-1

CIRCUIT CITY STORES, INC.
PO BOX 5695
GLEN ALLEN, VA 23058-5695

The accompanying Notice is **For Information Only**.

This notice was issued to comply with New York State Tax Law requirements to establish the amount of tax liability and is the type of notice allowed by Bankruptcy Code s362(b)(9).

It is being sent to you at this time to advise you of the amount of tax determined due by this Department.

No demand for payment of the tax due is made at this time.

**New York State Department of
Taxation and Finance**Audit Div-Buffalo Office-Income/Franchise
77 Broadway - Suite 112
Buffalo NY 14203-1670

Document Page 42 of 54

NOTICE AND DEMAND for Payment of Tax Due**DATE:** 06/15/09**ASSESSMENT ID:** L-031584652-4**TOTAL AMOUNT DUE:** \$14,465,051.01**PAYMENT DUE DATE:** 07/06/09CIRCUIT CITY STORES, INC.
PO BOX 5695
GLEN ALLEN, VA 23058-5695**TAXPAYER ID:** B-54-0493875-1**TPS ID:** 540493875AA**TAX TYPE:** Corporation**TAX ARTICLE/SECTION:** 9A/209.1**AUDIT ID:** X656131326**FUNCTION CODE:** DCO**TAXPAYER'S COMPLETE LEGAL NAME**

CIRCUIT CITY STORES, INC.

EXPLANATION AND INSTRUCTIONS

An amount is due for the Tax Type indicated above. The original notice sent to you on 02/23/09 showed the detailed computation of the additional amount due. Please refer to the COMPUTATION SUMMARY SECTION for a computation of the current balance due. Recent adjustments, credits or payments may not be reflected in the current balance due.

YOU MUST complete the enclosed Payment Document whether you AGREE or DISAGREE with this NOTICE AND DEMAND for Payment of Tax Due.

IF YOU AGREE with the amount due, complete the Payment Application Section.

IF YOU DISAGREE because the amount due was already paid, complete the Disagreement With Findings Section and attach a photocopy of the front and back of your canceled check or money order (not the money order receipt).

Refer to the Instructions on the Payment Document for returning that form.

If we do not receive full payment of the total amount due or your disagreement by 07/06/09:

We will take legal action to compel payment of the balance due.

Interest and any applicable penalty(s) will continue to be added to the total amount due unless full payment is made by the payment due date. Applicable penalty(s) may include penalty for failure to pay tax required to be shown on a return, imposed by section 1085(a)(3) of the Tax Law.

If you have any questions about this notice, call (518) 457-5434. For in-state callers without free long distance, call 1 800 835-3554. Refer to the Assessment ID, as shown above, when calling or writing.

To pay the amount due, call (518) 457-5434. For in-state callers without free long distance, call 1 800 835-3554. We will ask for your Taxpayer ID and PIN.
They are: Taxpayer ID: 540493875 PIN: 4652

Hotline for the Hearing and Speech Impaired

(CONTINUED ON BACK)



Date: 06/15/09

Consolidated Statement of Tax Liabilities

B-54-0493875-1 L-031584652-4
CIRCUIT CITY STORES, INC.

If you have any questions, please call
1 800 835-3554. From areas outside the
U.S. and Canada, call (518) 485-6800.

This is a statement of your tax liabilities, including the liability(ies) referred to in the enclosed
NOTICE AND DEMAND for Payment of Tax Due.

Each liability listed below is identified by an Assessment ID. Use the enclosed Payment Document to make
payment on these liabilities.

Recent adjustments, credits or payments may not be included on this Statement. Also, a payment may have
been applied to multiple assessments.

This Consolidated Statement summarizes your Tax liabilities with New York State under the taxpayer
identification number(s) shown above. If you have ever used another taxpayer identification number
for tax reporting purposes, you may owe additional New York State tax liabilities.

NOTE: To view the current balance of this or any other outstanding liabilities, access our web site at
www.nystax.gov and select the Online Tax Center option.

THE FOLLOWING LIABILITIES ARE SUBJECT TO COLLECTION ACTION AND THE ACCRUAL OF
ADDITIONAL PENALTY AND/OR INTEREST. To avoid such collection action and additional accruals,
they must be paid immediately.

Tax Type	Assessment ID	Tax Period Ended	Tax Amount Assessed	(+) Interest Amount Assessed	(+) Penalty Amount Assessed	(-) Assessment Payments/Credits	(=) Current Balance Due
CORP	L-031279862-1	02/28/07	726.82	130.86	0.00	239.00	618.68
TOTAL \$							618.68

THE FOLLOWING LIABILITIES HAVE BEEN DETERMINED TO BE DUE. They should be paid promptly
in order to avoid the accrual of additional penalty and/or interest charges.

Tax Type	Assessment ID	Tax Period Ended	Tax Amount Due	(+) Interest Amount Due	(+) Penalty Amount Due	(-) Assessment Payments/Credits	(=) Current Balance Due
CORP	L-031584652-4	02/28/07	9,343,164.00	4,064,040.01	1,057,847.00	0.00	14,465,051.01
CORP	L-031878313-8	02/29/08	0.00	0.73	79.02	0.00	79.75
TOTAL \$							14,465,130.76



New York State Department of
Taxation and Finance

Buffalo District Office
77 Broadway, Suite 112, Buffalo, NY 14203
(716) 855-5330 FAX: (716) 855-5369
(716) 855-5333

DATE 3/2/09
TO: (COMPANY NAME): Circuit City Stores, Inc.
FAX #: (804) 967-8831
ATTENTION: Angel Williams
FROM: Maryellen Blunt
NUMBER OF PAGES TO FOLLOW THIS PAGE: 4

If you have any difficulty receiving material, please call
(716) 855-5400.

MESSAGE:

- Audit Adjustment Schedules 6/30/04- 6/30/07
for Assessment to protect New York
State's claim in bankruptcy court.

FACSIMILE TRANSMISSION
CONFIDENTIAL NOTICE

The information contained in this facsimile is privileged and confidential information intended for the addressee listed above. If you are neither the intended recipient nor the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any disclosure, copying, distribution or the taking of any action in reliance on the contents of the telecopied information is strictly prohibited. If you have received this telecopy in error, please immediately notify us by telephone. Your anticipated cooperation is greatly appreciated.



New York State Department of Taxation & Finance
Summary of Additional Tax, Interest, and Penalty Due
 Schedule A

Taxpayer Name: Circuit City Stores, Inc.
 Taxpayer ID: 54-0493875
 Case Number: X656131326

Prepared by: M B
 Approved by:

Sub Type	Period Ending	Other Taxes And Fees	Addl. Tax (Refund) Due	Penalty Article 27	Interest Computed To 02/12/2009	Total Amount Due
15	02/29/2004		2,793,681	218,097	1,394,173	4,405,951
19	02/29/2004	MCTD	295,734	20,172	147,585	463,491
15	02/28/2005		3,909,304	385,058	1,561,958	5,856,320
19	02/28/2005	MCTD	609,405	60,039	243,487	912,931
15	02/28/2006		699,344	284,805	198,603	1,182,752
19	02/28/2006	MCTD	112,917	44,259	32,067	189,243
15	02/28/2007		795,107	38,884	129,849	963,840
19	02/28/2007	MCTD	127,672	6,533	20,850	155,055
Totals:			9,343,164	1,057,847	3,728,572	14,129,583

Interest will continue to accrue until paid.

Notes and References:

Circuit City Stores, Inc.		EIN 64-0493876		12/15/2008	
Computation of Additional Tax (Refund) Due Schedule A-1		Prepared by: MWB Approved by:			
	Period Ended REF 2/29/2004	Period Ended REF 2/28/2005	Period Ended REF 2/28/2006	Period Ended REF 02/28/2007	
Tax on entire net income base	Sch. B 3,015,640	Sch. B 4,135,035	Sch. B 1,241,215	Sch. B 933,909	
Tax on capital base	CT-3 221,959	CT-3 225,731	CT-3 188,851	CT-3 129,455	
Tax on minimum taxable income base					
Fixed dollar minimum tax	CT-3 1,500	CT-3 10,000	CT-3 10,000	CT-3 1,500	
Highest tax computed	3,015,640	4,135,035	1,241,215	933,909	
Subsidiary capital base tax					
Total tax before credits	3,015,640	4,135,035	1,241,215	933,909	
Less tax credits:					
Total allowable credits	0	0	0	0	
Franchise tax per audit	3,016,840	4,135,035	1,241,215	933,909	
Larger of minimum taxable income base tax or fixed dollar minimum	1,500	10,000	10,000	1,500	
Highest tax	3,015,640	4,135,035	1,241,215	933,909	
Minimum tax on member corporations	(1) 0	0	0	0	
Total franchise tax	3,015,640	4,135,035	1,241,215	933,909	
Tax previously paid	CT-3 221,959	CT-3 225,731	CT-3 541,871	CT-3 138,802	
Total taxes previously paid	221,959	225,731	541,871	138,802	
Additional Tax (Refund)/ Due	2,793,681	3,909,304	699,344	796,107	
- To Schedule A -					
Notes:					
					Total franch. tax 8,197,436
					Total MTA Schg. 1,145,727
					9,343,163
(1) None of the combined members are New York State taxpayers on a separate basis.					

Circuit City Stores, Inc.		EIN 54-0493875		12/15/2008	
Computation of Additional MTA Surcharge (Refund) Due				Prepared by : MWB	
Schedule A-2				Approved by :	
	Period Ended REF 2/29/2004	Period Ended REF 2/28/2006	Period Ended REF 2/28/2008	Period Ended REF 02/28/2007	
Net New York State franchise tax	(1) 3,618,768	(1) 4,962,042	(1) 1,489,469	(1) 1,120,691	
MCTD allocation percentage	CT-3M 75.2107%	per audit 75.2107%	per audit 75.2107%	per audit 75.2107%	
Allocated franchise tax	2,721,701	3,731,987	1,120,233	842,880	
MTA surcharge rate	0.17	0.17	0.17	0.17	
MTA surcharge	462,689	634,438	190,440	143,290	
Surcharge per report	CT-3M 166,955	CT-3M 25,033	CT-3M 77,523	CT-3M 15,618	
MTA surcharge previously paid	CT-3M 166,955	CT-3M 25,033	CT-3M 77,523	CT-3M 15,618	
Additional MTA surcharge Due	295,734	609,405	112,917	127,672	
- To Schedule A -				1,145,727	
Notes: (1): Although the tax rate on Entire Net Income is reduced from 9% for years beginning after 6/30/99, the MTA surcharge must be computed as if the tax on Entire Net Income remained at 9%.					

12/15/2008

Circuit City Stores, Inc.
Computation of Tax on Entire Net Income Base
Schedule B

Prepared by: mwb
Approved by:

EIN 54-0493875

	Period Ended REF 2/29/2004	Period Ended REF 2/28/2006	Period Ended REF 2/28/2006	Period Ended REF 02/28/2007
Entire net income as reported	CT-3 -82,578,878	CT-3 8,237,780	CT-3 103,940,692	CT-3 -28,888,854
Adjustments:				
Addback: Intertan Expense - foreign affiliate (1)		1120, line 28 379,787	1120, line 28 199,507	
Litigation Expenses related to foreign affiliate (1)				1120, line 28 10,045,488
Self insured Loss - included in other deductions (2)	1120, line 28 1,654,387	1120, line 28 2,281,960	1120, line 28 3,388,743	1120, line 28 2,122,718
Combined Entities:				
Circuit City Stores, West Coast, Inc., ein 96-4480785 (3)	1120 347,428,853	1120 387,765,936	1120 448,204,287	1120 457,429,538
Less: Royalty and Interest Income included in NY return	CT-3 -322,989,871	CT-3 -330,641,213	CT-3 -365,477,790	CT-3 -400,403,058
Add: Dividend Income subtracted on NY return	CT-3 426,118,000	CT-3 340,428,143	CT-3 43,082,000	CT-3 104,561,000
Less: Noninterest Deductions Indirectly Attrib. to Sub. Cap.			CT-3 -35,702,489	CT-3 8,666,088
OC Distribution Co. of Virginia, Inc., ein 54-1712621	1120 3,205,652	1120 3,307,649	1120 6,634,435	1120 3,882,377
DC Funding International, Inc., ein 54-2062183	1120 30,311,311	1120 279,137,613	1120 279,137,613	1120 279,137,613
Tyler International Funding, Inc., ein 54-2062165	1120 87,189,050	1120 279,137,613	1120 279,137,613	1120 279,137,613
First North American National Bank, ein 68-1987792	1120 23,982,684	1120 3,087,788	1120 3,087,788	1120 3,087,788
Ventoux International, Inc., ein 20-107183E		1120 1,322,818	1120 1,809,848	1120 123,654
Entire net income as adjusted	502,808,809	689,172,545	208,889,243	155,651,532
Investment income before allocation	0	0	0	0
Business income before allocation	502,808,809	689,172,545	208,889,243	155,651,532
Investment allocation percentage	0.0000%	0.0000%	0.0000%	0.0000%
Combined Business Allocation Percentage per Audit (4)	8.0000%	8.0000%	8.0000%	8.0000%
Allocated investment income	0	0	0	0
Allocated business income	40,208,529	55,133,804	18,548,539	12,452,123
Total allocated income	40,208,529	55,133,804	18,548,539	12,452,123
Other additions (subtractions):				
Entire net income base	40,208,529	55,133,804	18,548,539	12,452,123
Tax Rate	7.50%	7.50%	7.50%	7.50%
Small Business Qualified (Y/N)	N	N	N	N
Entire Net Income Base Tax	3,015,640	4,135,036	1,241,215	933,909
- To Schedule A-1 -				

Notes:

(1) New York State Tax Law Article 9A, Section 208(9)(b), Regulation Section 3-2.3(7). Expenses related to foreign subsidiary must be added back to ENI as directly attributable to subsidiary capital.

(2) New York State Tax Law Article 9A, Section 211(5), Regulation Section 3-1.4. Taxpayer has not been able to substantiate this expense, therefore, it is being added back in order to protect the State's interest.

(3) New York State Tax Law Article 9A, Section 211(4), Regulation Section 9-2. The above entities meet the requirements for combined reporting.

(4) New York State Tax Law Article 9A, Section 210, Regulation Section 4-1.2. Taxpayer was not able to provide intercompany elimination amounts to properly compute a combined BAP, therefore in order to protect the State's interest, we reasonably computed the combined BAP at 8%.

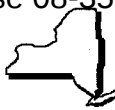
Seems to be double counting
• TLC dividends would be eliminated

* Apport 8? Do we agree?
How was this calculated?

* FNANS was in VDA right?
* SPEs were not a VDA, right?
* Review previous audit what was treatment of SPEs
* when did the Unitary rules kick in, did we file Unitary?

EXHIBIT B

(Proof of Claim No. 12586)



**New York State Department of
Taxation and Finance**

Bankruptcy Section
P O Box 5300
Albany NY 12205-0300

(518) 457-3160

Statement date: 4/28/2009

Amendment: 3rd

Case number: 08-35653 KRH
Refer to this number for inquiries

Total claim amount: \$14,130,257.13

Taxpayer ID#: B-54-0493875-03-1
B-54-0493875-02-4
B-54-0493875-B-64
et al.

Pre-Petition Proof of Claim

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF VIRGINIA
c/o KURTZMAN CARSON CONSULTANTS LLC.
2335 ALASKA AVENUE
EL SEGUNDO, CA 90245

This is a statement of tax liabilities for LAFAYETTE WARDS COMPANY INC, LAFAYETTE WARDS COMPANY INC and CIRCUIT CITY STORES INC, et al.. Penalty and interest for each liability is computed to 11/10/2008.

Unsecured Priority Liabilities

Tax Type	Period End	Notice Number	Tax	Penalty	Interest	Total	Type
CORP	02/28/2007	L-031279862-1	487.82	0.00	107.29	595.11	ACT
CORP	02/28/2007	L-031584652-4	9,343,164.00	0.00	3,728,572.00	13,071,736.00	AUD
						SubTotal \$	13,072,331.11

General Unsecured Liabilities

Tax Type	Period End	Notice Number	Tax	Penalty	Interest	Total	Type
CORP	02/28/2007	L-031584652-4	0.00	1,057,847.00	0.00	1,057,847.00	AUD
CORP	02/29/2008	L-031878313-8	0.00	79.02	0.00	79.02	ACT
						SubTotal \$	1,057,926.02

This claim amends and supercedes the previous claim dated 4/27/2009.
Current Annual Interest Rates by Tax Type: Corporation - 8%
Liability Type Descriptions: AUD - Audit Assessment, ACT - Actual Return Filed

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KURTZMAN CARSON CONSULTANTS



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IN THE UNITED STATES BANKRUPTCY COURT
 FOR THE EASTERN DISTRICT OF VIRGINIA
 RICHMOND DIVISION

- - - - - X
 In re: : Chapter 11
 :
 CIRCUIT CITY STORES, INC., : Case No. 08-35653 (KRH)
et al., :
 :
 Debtors. : Jointly Administered
 - - - - - X

**ORDER SUSTAINING DEBTORS' OBJECTION TO CLAIM OF
 NEW YORK STATE DEPARTMENT OF TAXATION
 AND FINANCE (CLAIM NO. 12586)**

THIS MATTER having come before the Court on the
 Debtors' Objection to Claim of New York State Department
 of Taxation and Finance (Claim No. 12586) (the
 "Objection"); and it appearing that due and proper

notice and service of the Objection as set forth therein was good and sufficient and that no other further notice or service of the Objection need be given; and the Court having reviewed the Objection, Claim No. 12586, any response to the Objection, if any, and all related documents; and it appearing that the relief requested on the Objection is in the best interest of the Debtors, their estates and creditors and other parties-in-interest; and after due deliberation thereon good and sufficient cause exists for the granting of the relief as set forth herein,

IT IS HEREBY ORDERED ADJUDGED AND DECREED THAT:

1. The Objection is SUSTAINED.
2. Claim No. 12586 filed by the New York State Department of Taxation and Finance is disallowed in its entirety for all purposes in these bankruptcy cases.
3. The Debtors' rights to object to any claim (filed or not) that have been or may be asserted against the Debtors on any grounds governing law permits are not waived and are expressly reserved.

4. This Court shall retain jurisdiction to hear and determine all matters arising from or related to implementation or interpretation of this Order.

Dated: Richmond, Virginia

April ____, 2010

HONORABLE KEVIN R. HUENNEKENS
UNITED STATES BANKRUPTCY JUDGE

WE ASK FOR THIS:

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Counsel to the Debtors
and Debtors in Possession

CERTIFICATION OF ENDORSEMENT UNDER LOCAL RULE 9022-1(C)

Pursuant to Local Bankruptcy Rule 9022-1(C), I
hereby certify that the foregoing proposed order has
been endorsed by or served upon all necessary parties.

/s/ Douglas M. Foley
Douglas M. Foley